Tax Reforms And Their Varying Impacts on Private Households in Germany; Socio-Economic Modelling Opportunities in a Macro-Econometric Input-Output Model

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Paper Abstract: In 2015, private households generated 386 bn Euro property income and 1,545 bn Euro gross income from wages and salaries (StBA 2016). In total they paid 282 bn Euro income taxes (ibid.). From 1991 to 2005 private household income from wealth and wages in average grew faster than income taxes: while property income and gross income from wages and salaries increased by 3.4 % and 2.1 % p. a., income taxes increased by only 1.5 % p. a. (ibid.). In the period thereafter (2005-2015) the situation changed leading to higher average annual growth rates in taxes (4.2 % p. a.) than in income (0.2 % p. a. for property income and 3.1 % p. a. for wage income) (ibid.). Simultaneously with this development the dispute about the bracket creep and the demand for tax cuts flared up again (Hechter et al. 2012, Breidenbach 2014). Especially households with small and medium incomes were affected by high raises in the income tax burden caused by the bracket creep (Lühn 2013). Changes in the income tariffs between 2005 and 2014 did not suffice to compensate the bracket creep (ibid.).

The aim of this paper is to analyse the effects of an income tax reduction on the total econ- omy as well as on the income situation of different household types. By combining the macro-econometric input-output model INFORGE with the socio-economic system DEMOS (with household specific income and consumption information) we can show which household types would profit most and how their income would change. Issues concerning measures of inequality can be addressed as well.

It can be shown that a tax reduction has a positive effect throughout the economy in the initial year of the tax reform. In the years that follows the positive impact changes into small persistently negative ones. Furthermore, the first positive impulse is not high enough to outweigh the accumulated negative effects. Working households with high incomes profit most from simple tax cuts. Non-working households are faced with comparably smaller positive deviations in income but succeed to have positive effects in the long run. The inequality is higher in the year of the tax reform and falls back to the original level thereafter.

The remainder of the paper is structured as follows. Section 2 gives a short overview of the modelling context and the scenario settings. Section 3 encompass the results on economic and household-specific level. The conclusion is in Section 4.